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UNITED STATES DEPARTMENT OF AGRICULTURE
Rural Electrification Administration
Finance Division
Washington 25, D.C.

BOOKS OF ORIGINAL ENTRY

Text No. 12

1. INTRODUCTION

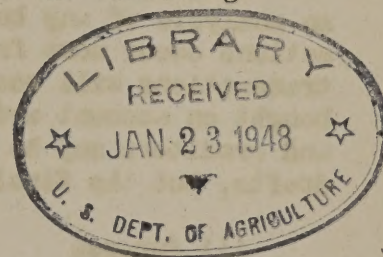
In previous texts all accounting transactions have been discussed as being recorded in the journal, which is the simplest form of book of original entry.

The recording of all entries in a book such as the journal is not always satisfactory or practical, particularly when business transactions are numerous and complex. The bookkeeping work involved in such a procedure becomes not only cumbersome but impractical. To meet this objection and also to provide a detailed analysis of similar types of transactions, other specialized books of original entry have been developed.

The journal, as a book of original entry, has been retained, its usefulness being confined to those entries which are not ordinarily provided for in the other books of original entry. These include opening and closing the books, recording accruals and adjustments, etc.

Generally, specialized forms of books of original entry consist of the General Journal, Cash Book, Sales Book, and Purchase Book. However, in REA-financed cooperatives the books of original entry usually consist of the following:

1. General Journal
2. Cash Book
 - (a) Receipts
 - (b) Disbursements
3. Accounts Payable Register



2. GENERAL JOURNAL

A columnar journal is one which has more than one debit and credit column. There are different forms of columnar journal rulings. One form has a debit and credit column to the right of the date preceded by account, explanation, and folio columns. This form is the one in general use by REA-financed systems.

Another form is the center account form of journal, having the debit columns on the left-hand side and the credit columns on the right-hand side of the page. There is no date column, the date being entered on a line which also serves to separate the journal entries. The journal debits and credits are entered in a manner similar to the entries in the sample form of journal, with the explanatory remarks on the line below. The debit postings are indicated in the folio column to the left of the debit entry, and the credit postings are indicated in the folio column to the right of the credit entry.

When journal entries for a particular class of transactions occur frequently enough, it is advisable to provide separate columns in the general journal. Entries affecting accounts receivable and accounts payable are examples.

Where separate columns are provided, each entry is posted individually to the proper subsidiary ledger account. The monthly total of the columns is then posted to the corresponding general ledger controlling account. The posting from the journal is not complete until there has been recorded in the ledger accounts the journal page number from which the transaction was first entered. Likewise in the journal, the ledger page to which the entry was posted should be indicated. Thus a complete cross reference is effected, making it possible to trace every transaction, either from the journal to the accounts in the ledger or backward from either account to the journal.

The folio column of the journal contains the ledger page reference and the ledger shows the journal page cross reference. In case some error has been made in posting, either by omitting an entry, by posting an incorrect amount, or by posting an amount into the wrong account, the error can be located by referring to the original entry.

Illustrations of columnar journals appear on the following page.

3. CASH BOOK

a. Cash Receipts

An analysis of any business will disclose that certain types of transactions occur more frequently than others. For example, most business transactions will sooner or later involve cash. Merchandise may be bought on account and sold on account. Open accounts with customers and creditors may be temporarily settled with promissory notes and drafts, but the final settlement is made by the payment of money.

(1) Purpose

The cash book is a specialized form of journal in which all cash transactions are recorded. Its purpose is to segregate in a separate book of original entry all cash entries. In this manner the general journal is relieved of numerous cash entries. To separate the cash transactions from the general journal and segregate them in a special book has several advantages.

Each of the entries in the Cash Receipts book represents a receipt or collection of cash. The debit to cash is not written in each entry, but is implied from the fact that the entry is made

in the cash receipts record. The total debit to cash, shown by the footing of the book, is posted in one amount to the cash account at the end of each month. The totals of the credits to the various accounts are also posted monthly.

(2) Standard Forms and Illustrative Transactions

A simple form of cash receipts book is illustrated below:

CASH BOOK

Receipts Side				
1944				
Date	Account Credited	Explanation	Folio	Debit Cash

The month and day of the cash receipt is entered in the date column, and the year date is written at the top of the column. The account to be credited is written in the first of the two wide columns, explanatory remarks in the second column, and the amount is entered in the money column at the right. The folio column is used to indicate that postings have been made to the ledger.

Another form of cash book is known as the columnar Cash Book. In the installation of a modern system of accounts the plan generally adopted is to deposit in the bank all monies received and to have all disbursements, other than petty cash, made by bank checks. There are many varieties of columnar cash books depending upon the volume and character of receipts. The illustration on page 6 embodies the fundamental requirements of a modern cash receipts book and, with the introduction of additional columns as may be required, will be well adapted to most businesses.

The receipts or debit side of the cash book is designed to show the dates monies were received, the account to be credited, the explanatory details, the folio posting column, the amounts to be credited to individual accounts in the General Ledger, the amounts to be credited to individual accounts in the Accounts Receivable Ledger, the amounts of cash discounts allowed, and the amount of cash deposited in the bank.

The cash receipts which are to be credited to general ledger accounts are entered in the General column, while those to be credited to customers' accounts are entered in the accounts receivable column. When a remittance is received from a customer on a discountable item, the full amount of the settlement is

entered in the Accounts Receivable column, the discounts allowed in the Discount on Sales column, and the net cash in the Bank Deposits column. This method of recording cash discount allowed has the advantage of recording the deduction on the same line on which the cash receipt is entered. Instead of entering the checks received in the bank deposits column, the total of each bank deposit may be entered in the bank deposits column under the date the deposit is made.

The illustration of a columnar cash receipts book which follows contains a special credit column headed "Accounts Receivable." This column serves two purposes:

- (a) The subsidiary accounts receivable ledger clerk can easily find the items that are to be posted to his ledger.
- (b) The bookkeeper can then post the total of the column to the Accounts Receivable controlling account in the general ledger.

(3) Advantage of the Cash Book

There are two outstanding advantages in using the columnar cash book:

- (a) Time is saved in posting. Instead of having to post item by item all cash receipts and disbursements from the cash book to the cash account in the general ledger, totals can be posted from the Cash Book at the end of the period.
- (b) Clerical work can be divided. One person can work on the cash book and another on the general journal. With this division of labor among several individuals, greater accuracy will be obtained. The fact that several persons are working independently of each other provides a check on the accuracy of the records.

(4) Posting

At the end of the accounting period the totals of the cash receipts book columns should be footed and posted to the general ledger accounts, the total cash receipts by a debit to the cash account and the individual items by credits to the various ledger accounts. The larger the business, the greater is the number of cash items, and consequently the greater is the saving of time if a separate book of original entry, such as the cash book, is used.

CASH BOOK - RECEIPTS

DR.

Month of May, 19--

Date	Account	Detail	Fol.	General	Accounts Receivable	Discount on Sales	First National Bank Deposits
May 30		Brought Forward		16020.60	14011.55	402.10	29630.05
"	I. M. Ship	Inv. 5/10	216		102.60		102.60
"	R. M. Paul	Inv. 5/21, less 2%	240		275.00	5.50	269.50
"	Notes Receivable	Frank Bliss	43	722.50			722.50
"	C.O.D. Sales	M. W. Henderson	263		61.25		61.25
31	Warner Bayles	Inv. 5/22, less 2%	201		1560.00	31.20	1528.80
"	Notes Payable	City Natl. Bk., 6% demand	78	2500.00			2500.00
"	O. E. West	Apr 1 Account	222		286.50		286.50
"	Notes Payable	Sec. Natl. Bk., Due 7/30, 6%	78	1000.00			
"	Interest Expense	on above	180	(10.00)			
"	W. F. Warty	April Account	258		483.90		990.00
"	B. J. Baty	Apr. Acct. 5/22, 2% on 2080	240		2443.20	41.60	483.90
"	C. B. Warner	Apr 1 Account	266		78.80		2401.60
"	Notes Receivable	B. R. Sanderson	43	300.00			78.80
"	Interest Income	on above	179	1.50			
"	Currency	W. E. Blake's check - contra		25.00			301.50
"	Lumber Sales	Cash Sales for half month	105	1120.40			25.00
"	Building Matls.						1120.40
"	Sales						
"		" " " " " "	" 107	960.50			960.50
	Balance, May 1, 19--			22640.50	19302.80	480.40	41462.90
				3420.60			3420.60
				19219.90	19302.80	480.40	38042.30
	General Ledger			19219.90			
	Accounts Receivable			19302.80			
	Discount on Sales		170				480.40
	First National Bank						38042.30
				38522.70			38522.70
	Total Bank						41462.90
							41462.90

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b. Cash Disbursements

(1) Purpose

The right-hand page or credit side of the cash book is used to record all disbursements. All receipts are deposited daily in the bank, and all disbursements should be made by check. The person authorized to sign checks should not ordinarily have the authority to make entries in the cash book. For the purpose of safeguarding the cash, either all checks should be signed by one person and countersigned by another or the voucher system should be installed allowing checks to be signed by one person, but only upon authorization evidenced by a voucher signed by another individual. All checks should be numbered serially. All spoiled, mutilated, canceled, or voided checks should be preserved. In fact, such checks should be recorded in their proper sequence in the cash disbursements records, without the entry in the money column, but with the notation that the check is void. Where all receipts are deposited daily and disbursements are made by check, the cash columns of the cash books will serve as a record of the deposits in and withdrawals from the depository.

(2) Standard Forms and Illustrative Problems

A simple form of cash book--disbursements side--is illustrated below:

CASH BOOK				
Disbursements Side				
1944				
Date	Account Debited	Explanation	Folio	Cr. Amount

The month and day of the cash disbursement is entered in the "date" column and the year date is written at the top of the column. The account to be debited is written in the first of the two wide columns, the explanatory remarks in the second column, and the amount is entered in the money column at the right. The folio is used to indicate that postings have been made to the ledger. The Cash Disbursements Book is a journal in itself, although it does not appear so in form. It accomplishes the same effect with less detail work in entering the transactions and greatly reduces the number of ledger postings.

Another type of cash disbursement book is the columnar form which is illustrated on the following page.

Cash Book - Disbursements

Month of May, 19--

CR.

Date	Account	Payee	Check No.	Fol.	General Payable	Accounts Payable	Discount on Purchases	First National Bank Withdrawals
May 30	I. C. Ship	Brought Forward						
"	Freight &	Inv. 5/20 Less 2%	417	304	14709.50	8604.55	165.30	23148.75
"	Express - Sales	C & N W Ry.	8	130	48.25			48.25
"	F. A. Vance	Refund, Overpayment	9	250	20.50			20.50
"	Advertising	Bennett Can Company	420	153	145.00			145.00
31	Pill Bros.	Inv. 5/22	1	310		680.70		680.70
"	Strong & Co.	Inv. 5/23, Less 2%	2	307		4650.00	93.00	4557.00
"	Notes Payable	Third State Bank	3	78	4000.00			
"	Interest Expense	on above		180	40.00			4040.00
"	Insurance	National Ins. Co.	4	121	265.00			265.00
"	C. Bank	Dishonored Note -						
"	Currency	3rd Natl. Bank	5	233	727.80			727.80
"	Auto Expense	W. E. Blake - contra	6		25.00			25.00
"	Stationery & Prtg.	H. Snell (Petty Cash)	7	135	11.50			
"	General Expense	"	7	142	6.40			
"		"	7	149	16.80			34.70
					<u>20015.75</u>	<u>16310.25</u>	<u>305.80</u>	<u>36020.20</u>
		General Ledger			20015.75			
		Accounts Payable			16310.25			
		Discount on Purchases	175					305.80
		First National Bank	40					36020.20
					<u>36326.00</u>			<u>36326.00</u>
		Bank Withdrawals						36020.20
		Balance May 31, 19--						<u>5442.70</u>
								<u>41462.90</u>

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This form is designed to be used in connection with an accounts payable ledger and indicates:

- (a) The dates monies were disbursed;
- (b) The account to be debited;
- (c) The explanatory detail and check number;
- (d) The folio posting column;
- (e) Amounts to be debited to individual accounts in the general ledger;
- (f) The amounts of cash discounts allowed; and
- (g) The total of checks drawn on the depository.

As shown above, cash disbursements which are to be debited to general ledger accounts are recorded in the General column while those to be debited to creditors' accounts are entered in the Accounts Payable column. When a payment is made to a creditor on a discountable item, the whole amount of the settlement is entered in the accounts payable column, the discount deducted is entered in the Discount on Purchases column, and the cash disbursed is entered in the Bank Withdrawals column. This method of reporting cash discount taken has the advantage of entering the deduction on the same line on which the cash disbursement is recorded.

(3) Advantages of Cash Book

The simple cash book with all receipts recorded on the left-hand page and all disbursements on the right-hand page, answers the requirements of the small business but in a larger enterprise the volume of cash transactions is much greater. In most concerns the cash receipts usually outnumber the disbursements. For these reasons the cash book is often divided into two separate books, one for receipts and the other for disbursements. This arrangement makes possible an even greater economy in at least two respects.

First,

Several employees can work on the cash books at the same time. This is desirable, not only because a larger volume of work can be accomplished, but also because greater accuracy can be obtained since every person in handling only one type of transaction becomes more proficient and accurate.

Second,

Another advantage of having separate books results when they are balanced at the end of a period. The receipts usually outnumber the disbursements. When the receipts and disbursements are recorded on opposite pages in the same book, the

receipt side will be filled up much more quickly than the disbursement side. Thus when the two sides are balanced a considerable number of right-hand pages will be wasted. This waste can be eliminated by using a separate book for cash receipts.

(4) Posting

The total cash disbursement during the month is posted as a credit to the cash account in the general ledger; thus only one entry is necessary to record these disbursements no matter how many entries the cash book contains. Obviously, the larger the business the greater the number of cash items, and consequently the greater the saving of time if a cash book is used. Posting from a cash book is not complete; however, when the credit cash total has been posted. Every debit item must also be posted separately to the other accounts which are affected just as it would be posted from the journal. The cash book is balanced in ink and closed only at the time of posting totals. This posting is usually made at the end of the month, or oftener if the needs of the business require it.

c. Basic Principles to be Used in Handling Cash

Since cash transactions occur so frequently in the course of a business, it is desirable and vital to safeguard their handling as closely as possible. This can be accomplished in several ways.

- (1) Wherever it is possible, at least one person should be fully bonded and held responsible for the cash funds.
- (2) It is good business practice to deposit in the bank all cash received and to make all disbursements by check. Thus cash receipts and disbursements are recorded on two independent records, that of the business itself and also that of the bank.
- (3) Another way of controlling cash has to do with the records of the business, especially with the cash book.

Some receipts may come over the counter as the proceeds of cash sales or as collections on account; other receipts may come through the mail. As to the cash received over the counter, pre-numbered invoices should be made out for all cash sales, and it should be the duty of some person to see that the duplicates of these cash sales invoices or tickets agree with the recorded receipts and that no invoices are missing or unaccounted for. Pre-numbered receipts should be issued for all collections on account; and a second employee should check the duplicates of the receipt against the cash record. All remittances received through the mail should

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go to a responsible employee for listing on an adding machine. This employee should also obtain the total cash receipts taken over the counter so that his tape will include the total receipts for the day. After the receipts have been listed, the cash should be turned over to the person responsible and the remittance list turned over to the bookkeeper.

The person responsible for the cash should prepare the deposit tickets and see that the funds are deposited. Since all funds received should be deposited daily, the total of the deposit tickets for the day should equal the total of the adding machine tape prepared on the total collections. The person responsible should prepare each deposit ticket in duplicate, request the receiving teller at the bank to receipt the duplicate, and present the receipted duplicate to the bookkeeper for comparison with the remittance list; or he should present the passbook to the bookkeeper who will then compare the entry for the deposit with the total of the cash receipts.

The bookkeeper will record the cash receipts from information shown by the remittance data, the adding machine tape, and other documents. The total recorded receipts for the day, as shown by the cash receipts book, should equal the summary of total receipts and the deposit slip.

d. Petty Cash

(1) Purpose

In the modern method of accounting for cash, all monies received are deposited intact and all payments are made by check. It is practicable to make larger disbursements by check. However, to care for smaller disbursements a petty cash fund is established by drawing a check to the order of the person responsible for a definite amount which is debited on the general ledger to Petty Cash account. The amount of the petty cash fund is determined by the needs of the business, and the fund established is kept strictly separate from all monies received from cash sales, collections from accounts, and other sources.

(2) Method of Application

To account for cash payments out of the petty cash fund a petty cash disbursement record is maintained. This record has account columns for the classification of all petty cash disbursements, such as stationery and printing, office expense, transportation expense, etc., and also a sundry accounts column for miscellaneous items.

When the petty cash fund is nearly exhausted the petty cash disbursement record and the necessary voucher supporting the expenditures are presented to the proper official for approval and then

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a check is issued for the precise amount of the total petty cash disbursements. Cashing this check restores the fund to its original amount and the process is then repeated. The currency in the petty cash box plus the receipted vouchers for disbursements made as shown by the record should at all times equal the original amount of the fund.

The petty cash account always remains unchanged unless the amount is permanently increased or decreased. This is termed the "imprest system" of keeping the petty cash.

A check is issued to reimburse the fund for petty cash disbursements and is entered on the disbursements side of the cash book as "petty cash disbursements" for the full amount of the check. After a check is drawn to "petty cash" for supporting receipted vouchers, the check number should be written on the face of each voucher. The postings are made direct from the distributive columns of the petty cash disbursement record and are debited to their respective general ledger accounts. The individual items in the Sundry Accounts column are posted in detail to the debit of the accounts affected. This method saves a great amount of detail work where cash disbursements are classified to a considerable extent, as it eliminates the necessity of copying in the cash book the names of the individual accounts to be charged and the amounts. A sample form of Petty Cash Disbursement Record is illustrated on the following page.

It will be noted that the expense accounts are debited when the fund is replenished and not when the petty disbursements are made. Thus numerous small disbursements can be recorded by one entry in the cash book. The entry to establish the petty cash fund is:

Debit - Petty Cash Fund	\$25.00	
Credit - Cash (depository)		\$25.00

The entry to replenish the petty cash fund is:

Debit - Various Expense or Other		
Accounts shown by the Petty		
Cash Book	xxx	
Credit - Cash		xxx

4. VOUCHER REGISTER

a. Purpose

A voucher is a document which evidences the correctness of an account. The voucher record system is designed to provide a uniform method of

recording expenditures, in which the detail postings are reduced to a minimum, and all data relative to indebtedness incurred and disbursements to be made are arranged in the form convenient for approval and authorization of payment.

b. How Used

The voucher form in common use is ruled to show the name and address of the creditor and adequate details regarding the account such as: voucher number, date of the account, and the amount, in order to permit a ready identification with the original invoice or other evidence of indebtedness. The distribution of the items is covered by the voucher itself, or distribution may be made only in the voucher record, depending upon the method preferred. Spaces are provided for verification of the correctness of the account by the head of the accounting department and for final approval by the properly authorized person.

c. Posting

The general form of voucher record has columnar rulings for the voucher number, date, name, date paid, accounts payable, and discount on purchases, followed by distributive columns headed with the names of the accounts to which the items are to be charged. Distribution of the items covered by the voucher is entered on the same line as the credit to accounts payable. Those items which are numerous are entered in their respective distributive columns, while items less numerous are entered in the "General" column. The name of the account to which these items are to be posted is entered in the "Miscellaneous Accounts" column to the left of the "General" column. The ledger posting is noted in the "Folio" column.

After a voucher has been entered it is sometimes necessary to record debit charges for purchases returned, claims for damaged or defective goods, or rebates. Such adjustments may be handled in either of two ways.

The original voucher may be voided and a new voucher made to include the debit charges. When the original voucher is voided in the month of issue the entries may be ruled off in red ink. The preferred method, however, is to make an entry directly from the Voucher Record using the original voucher number, reversing the original entry by debiting accounts payable, and crediting the accounts originally debited. This is done by making the new entries in red ink, which signifies a deduction of the former credit and debit entries. In the "date paid" column of the original entry a notation should be made that the original voucher has been voided and a new voucher has been drawn for the new amount.

An alternative method frequently used is to make the deduction on an unpaid voucher, preferably on the voucher containing items on which

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the adjustments apply. This is especially desirable when the claim is for damaged or defective goods. To record the deduction in the voucher, record a red ink entry is made, using the original voucher number, debiting accounts payable, and crediting the account originally debited.

When a debit charge is to be made and there is no unpaid voucher on which it may be applied, the practice is to make a red ink entry in the voucher record, debiting accounts payable and crediting the account charged. Such a charge should never be held as a memorandum, as it may then be overlooked, especially if no purchases are made for some time. Once entered it cannot be lost sight of as it must be included in reconciling the accounts payable. An illustrative Voucher Record will follow on the next page.

d. Purchase Routine

In a well-organized business, all purchases of materials and supplies are made by the purchasing agent who obtains information pertaining to purchase requirements from copies of the purchase requisitions.

(1) Purchase Requisitions

Requisition forms are of various kinds; the one below is typical:

(PURCHASE REQUISITION)

F. E. HELRUNG & COMPANY

Requisition No. M-21 Date August 1, 1943

Please purchase for delivery before August 15

<u>Quantity</u>	<u>Description</u>
200	Meters - 2W3A
200	Meter Sockets

Requisitioned by Percy Kenyon Approved by J. E. Atchison

PURCHASING AGENT'S MEMORANDUM OF ORDER

Purchase Order No. 10 Issued to Tri-Mee Elec. Company
Date of Order August 2 Chicago, Illinois

Month of 19

VOUCHER RECORD

Vchr. No.	Date	Name	Date Paid	Accounts Payable	(Memo) Discount on Purchases	Material	Hardware	Farm Implements
1	May 2	Berie Fry Co.	5/12	1225 00	25 00	1225 00		
2	"	2nd Nat'l. Bank	5/2	757 50				
3	3	Morris Mach. Co.		1500 00				
4	"	Ballard & Co.	5/13	1661 00	33 90		1661 10	
5	4	X. & Y.Z. Ry. Co.	5/4	108 60				
6	"	Steering Harv. Co.	5/14	4248 60	31 40			4248 60
7	6	Slow Transfer Co.		32 50				
8	8	Burnhim & Co. (Note)	5/4-5/8	4547 50		4547 50		
9	"	X. & Y.Z. Ry. Co.	5/8	132 60				
10	9	John Ward Transf.	5/5-5/12	180 50				
11	"	Pear Advt. Agency		1240 00				
12	12	Tons Fuel Co. (Transf.)						
		J6-5/14 220)		625 00				
13	10	City Nat'l. Bank	5/10	3000 00				
14	"	Ballard & Co.	5/13	142 10	2 90		142 10	
15	11	Payroll	5/11	4952 50				
22	31	D. E. Walters Co.		380 15				
23	"	R. U. Banks, Cashier		151 15				
24	"	Practice & Co.		14 30				
25				35283 65	531 84	10267 50	2175 00	5128 90
26				14/	x/	19/	21/	22/

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Purchase requisitions may be filled out by various persons. The merchandise manager may fix a minimum quantity below which the stock must not be allowed to fall without re-ordering. When the stock is reduced to a minimum quantity, the stock order clerk enters the description of the article on a requisition. He may also enter the quantity to be ordered (if a standard quantity to be purchased has been established), or the quantity may be entered on a requisition by the merchandise manager.

Requisitions for office supplies may be prepared by the stenographers, bookkeepers, or other clerks requiring supplies, and may be approved by the office manager.

(2) Purchase Orders

The purchasing agent places an order by filling out the purchase order form similar to the illustration given below:

(PURCHASE ORDER)

F. E. Helrung & Company
2615 N. LaSalle St.
Chicago

To Tri-Mee Electric Company
4632 Market Street
Chicago, Ill.

Date August 1, 1943
Deliver Before August 5
Ship via Freight
F.O.B. _____
Terms 1-10; N-30

Quantity	Description	Price
200	Meters - 2W3A	8.00
200	Meter Sockets	1.50

Req. No. M-21

F. E. Helrung & Company

By T. L. Otterbeck
Purchasing Agent

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Three copies of the purchase order form are prepared. These are distributed as follows: Original is sent to the vendor, first copy is retained in the purchasing department files, and second copy is sent to the receiving department.

(3) Invoices

The invoice describes the merchandise shipped, quantity shipped, the unit price, the total amount charged for the merchandise, and other important information.

(INVOICE)

TRI-MEE ELECTRIC COMPANY
4632 Market Street
Chicago, Illinois

Invoice No. 5632

Customer's Order No. 6532

Date of Order August 2, 1943

Invoice Date August 5, 1943

Sold to: F. E. Helrung & Company
2615 N. LaSalle Street
Chicago, Illinois

Terms: 1-10: N-30

F. O. B. _____

Shipped to: Same

Date Shipped August 3, 1943

How Shipped Freight

Car No. & Initials _____

Quantity	Description	Unit Price	Amount
200	Meters - 2W3A	8.00	1,600.00
200	Meter Sockets	1.50	300.00
			<u>1,900.00</u>

(4) Verification of Invoice

When the invoice is received it is sent to the purchasing department where a check sheet in the following form is pasted to it or a rubber stamp is imprinted on it.

CHECK SHEET

Invoice checked to purchase order for:

	Date	By
Merchandise	_____	_____
Prices	_____	_____
Discount terms	_____	_____
Freight terms	_____	_____
Quantity checked to inv.	_____	_____
Invoice footings and extensions checked	_____	_____
Approved for payment	_____	_____
Paid by Check No.	_____	_____
Date	_____	_____

Before the invoice is recorded and paid, the purchasing company should know that:

First, the invoice agrees with the purchase order.

A clerk checks each invoice against the copy of the purchase order to see that the merchandise invoices are the same as the merchandise ordered, and that the prices, the discount, and the freight terms are correct. He indicates the accuracy of these matters by initialing the check sheet on the four lines provided therefor.

Second, The goods invoiced were received.

When the goods are received the receiving clerk inspects the merchandise to see that it is in good condition; counts, weighs, or otherwise determines the quantity received and enters this quantity on his copy of the purchase order; and initials the copy of the purchase order and sends it to the purchasing department where it is filed in a binder called the Receiving Record.

A clerk in the purchasing department compares the quantities received shown by the receiving record with the quantities shown on the invoice. If they agree, he initials the check sheet on the "quantity checked to invoice" line. The extensions and footage on

the invoice are checked. The computations are checked by a clerk in the accounting department and the accuracy is indicated by his initials on the "Invoice footings and extensions checked" line of the check sheet.

(5) Payment of Invoices

When terms of an invoice received from a vendor are 1-10: N-30, this indicates that one per cent discount will be allowed if the invoice is paid within ten days from its date and that the invoice is due in thirty days without discount.

To be sure that all invoices are paid within the discount period, they may be filed under a tickler system which is a file of index cards bearing dates. For instance, an invoice due August 20 will be filed behind the card for August 18 which is the date on which the check should be mailed to reach the creditor before the expiration of the discount period. When the payment day arrives the invoice is taken from the tickler system and if funds are available for payment the treasurer or other authorized employee will sign or initial the check sheet on the "Approved for payment" line. When the check is drawn, the cashier or other authorized employee will enter the check number and the date on the check sheet attached to the invoice.

When a remittance is sent to a creditor it is important to give the creditor information as to the particular invoice which is being paid. It is also desirable to obtain a receipt from the creditor.

5. SUBSIDIARY RECORDS

a. Importance of Establishing Controls for Accuracy

In small businesses where the accounts are few in number and relatively inactive, the general, accounts payable, and accounts receivable accounts may be kept in one ledger and there is little difficulty in taking a trial balance and locating differences, if any. In a large business where there are a great number of transactions and accounts, the work of balancing the accounts is greatly facilitated if governing accounts are kept so that the general, accounts receivable, and accounts payable ledgers can be balanced independently of each other. This is quite essential, especially when a number of persons keep the accounts, because if all the accounts were balanced together and a difference existed, it would not be known where the error or errors occurred nor who was responsible therefor and chargeable with the duty of locating and correcting the difference.

The controlling account is an account which governs and regulates a set of accounts kept in another section of a ledger or in a subsidiary ledger. The controlling account represents the total of all the accounts appearing in the subsidiary book. The controlling account must, therefore, show the total amount of debits and credits and the total of the balances which make up the details of this record which it controls. As the balance of the controlling account equals the total of the balances of the subsidiary accounts which it controls, it naturally follows that the subsidiary accounts may be balanced with the controlling account independently of any other accounts.

Therefore, the individual items which make up the summary of the debits to a controlling account must be debited to the individual accounts, and the individual items which make up the summary of the credits to a controlling account must be credited to the individual accounts which the controlling account governs. As a natural result the balance of a controlling account equals the total of the balances of the accounts controlled.

It will readily be seen that to facilitate the work of posting summary totals of the individual debits and credits to a subsidiary record, full use must be made of the advantages of columnar books of original entry. In columnar books all the items which affect a subsidiary record are entered in a column pertaining only to that particular subsidiary record. The individual items in the account are posted to the individual accounts in the subsidiary record, and the total of the column is posted to the controlling account which represents that particular subsidiary record.

b. Periodic Balancing of Control Accounts in General Ledger with Subsidiary Records

Advantages of carrying control accounts on the general ledger are:

(1) The general ledger trial balance can be taken off without any reference to subsidiary ledgers as it balances within itself. This is highly desirable, especially when regular monthly operating and financial statements are to be made. A list of balances can be prepared of each of these subsidiary records governed by the controlling accounts in the general ledger, such as the accounts receivable and notes receivable ledgers. The total of the accounts of each subsidiary ledger or record is balanced against the balance of its respective controlling account.

(2) The individual balancing of the general ledger and the balancing of subsidiary records with the controlling account localizes any

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existing errors and makes unnecessary the checking of all of the books in order to locate the difference. The accounts in the general ledger are materially reduced, thereby permitting more convenient and efficient maintenance of that ledger.

(3) A number of persons can work on the separate ledgers at the same time. As the trial balance is only prima facie evidence of the correctness of the accounts, the general ledger may balance and still be incorrect. Therefore, it is important that the controlling accounts be reconciled with the subsidiary records monthly. For instance, the amount column of the sales register may be incorrectly added and a corresponding error made in the additions of the distributive columns. While errors of such a nature should not occur, they have been made. Where the sales are entered on recapitulation sheets without using an amount column, as is often done when only one accounts receivable controlling account is kept, an error in addition may easily be made. In either case the error would not be discovered until the accounts receivable ledger was balanced against its controlling account in the general ledger. As errors of this character affect the operating and financial statements, it is better practice to balance the subsidiary books before placing full reliance upon those statements.